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RANKING MEMBER

ONE HUNDRED THIRTEENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON ENERGY AND COMMERCE
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June 3, 2014

The Honorable Fred Upton
Chairman
Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Ed Whitfield
Chairman
Subcommittee on Energy and Power
Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, D.C., 20515

Dear Chairman Upton and Chairman Whitfield:

Standard and Poor's Rating Services (S&P) recently released a report warning that climate change will put downward pressure on the sovereign credit ratings of countries around the world. We are writing to request a hearing on this eye-opening report.

In its report, S&P explains how climate impacts, such as the increasing frequency and destruction of severe weather events, could affect the credit ratings of sovereign states. The report points to data from reinsurer Munich Re showing that "weather-related loss-events have risen in all continents, most significantly in Asia and North America, where they increased more than fourfold" since the early 1980s.[1]

The report states: "climate change is likely to be one of the global mega-trends impacting sovereign creditworthiness, in most cases negatively."[2] Climate change will impact credit ratings in several ways. First, economic performance will be reduced as agricultural yields decrease because of "repeated and prolonged droughts, heat waves and wildfires, or floods" and health effects reduce worker productivity. The report states that "extreme weather events,

[1] Standard and Poor's Rating Services, *Climate Change is a Global Mega-Trend for Sovereign Risk* at 4 (May 15, 2014) (online at www.standardandpoors.com/ratingsdirect).

[2] *Id.* at 2.

especially floods, can be expected to increasingly take a toll on a country's infrastructure and thus productivity."[3]

Second, fiscal performance will decline as government budgets come under increased stress from climate-induced emergency support and infrastructure reconstruction costs. According to S&P, "National budgets would invariably come under additional strains, potentially putting downward pressure on sovereign ratings and debts and deficits mount."[4] In addition, "with erratic weather patterns or increasingly frequent droughts or floods undermining" agricultural exports, "the adequacy of foreign reserves may become threatened as trade imbalances rise."[5] S&P also states: "Should global food production stagnate as climate conditions change, prices for agricultural goods would permanently increase."[6]

The poorest countries will be disproportionally impacted. According to the report, "while most sovereigns will feel the negative effects of climate change to some degree, we expect the poorest and lowest rated sovereigns will bear the brunt of the impact."[7] In fact, "all of the sovereigns in the Top-20 most vulnerable nations are emerging markets, and almost all of them are in Africa or Asia."[8]

The S&P report concludes: "we expect the significance of this mega-trend in assessing sovereign risk to only increase over coming decades, as evidence of the economic implications of climate change and extreme weather events becomes ever more visible."[9]

The S&P report makes it clear that the costs of inaction on climate change are enormous. The impacts will be large enough to adversely affect the credit ratings of entire countries. We urge you to hold a hearing with Standard and Poor's Rating Services to examine these impacts.

Sincerely,

Henry A. Waxman
Ranking Member

Bobby L. Rush
Ranking Member
Subcommittee on Energy and Power

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[3] *Id.* at 3.

[4] *Id.* at 3.

[5] *Id.* at 3.

[6] *Id.* at 3.

[7] *Id.* at 2.

[8] *Id.* at 9.

[9] *Id.* at 12.